

Message Text

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PAGE 01 LIMA 00158 01 OF 02 091556Z
ACTION AID-59

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FM AMEMBASSY LIMA
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LIMITED OFFICIAL USE SECTION 1 OF 2 LIMA 0158

AIDAC

JOINT STATE/AID,USDAO MESSAGE

E.O. 11652: N/A
SUBJECT: PL 480 TITLE III - FOOD FOR DEVELOPMENT

REF: (A) 77 AIDTO CIRCULAR A-434; (B) 77 LIMA 10073; (C) 77 LIMA 8415

1. WE ARE CONVINCED THAT A 5 YEAR TITLE III PROGRAM
IN PERU TALLING \$100 MILLION WOULD INCREASE SIGNIFICANTLY
THIS COUNTRY'S ABILITY TO SUSTAIN THE GROWTH-WITH-
EQUITY DEVELOPMENT STRATEGY IT INITIATED SEVERAL YEARS
AGO. IT WOULD HOAVE A PROFOUND IMPACT ON PERUVIAN
RURAL DEVELOPMENT AND WOULD CONTRIBUTE TO THE MAINTENANCE
OF EMPLOYMENT AND PRODUCTIVITY LEVELS IN THE RURAL
AREAS AND NUTRITION LEVELS COUNTRY-WIDE WHICH ARE
MORE CONDUCTIVE TO AN ORDERLY POLITICAL TRANSITION.
PER TOAID 8415, OUR \$20 MILLION TITLE I PROGRAM IN
1978 WILL PROBABLY EXCEED 12 PERCENT OF THE COMBINED
OPERATING AND INVESTMENT BUDGETS OF THE MINISTIRES
OF FOOD AND AGRICULTURE (RECENTLY REORGANIZED INTO
THE MINISTRY OF FOOD AND AGRICULTURE,), AND 30 PERCENT OF
THEIR COMBINED INVESTMENT BUDGETS. IT WIL ALSO
INCREASE WHEAT IMPORTS BY ABOUT 10 PERCENT.

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PAGE 02 LIMA 00158 01 OF 02 091556Z

2. PERU'S CURRENT FINANCIAL CRISIS SHOULD NOT BE
PERMITTED TO OBSCURE THE ACHIEVEMENTS OF THE COUNTRY
OVER THE PAST EIGHT YEARS -- A MAJOR AGRARIAN REFORM
WHICH OVERTURNED A LAND TENURE SYSTEM OF EXTREME
INEQUALITY, AN INDUSTRIAL REFORM WHICH HAS GIVEN
THOUSAND S OF WORKERS AN OPPORTUNITY TO PARTICIPATE
IN BOTH THE PROFITS AND MANAGEMENT OF PRIVATE

CONCERNS, AN EDUCATIONAL REFORM DESIGNED TO REACH MARGINAL ECONOMIC AND ETHNIC GROUPS MORE EFFECTIVELY, AND AN INNOVATIVE APPROACH TO THE BETTERMENT OF URBAN SLUM COMMUNITIES WHICH ACKNOWLEDGES THE RIGHTS OF THE POOR MAJORITY BY SERVICING THE BASIC HEALTH AND SANITATION NEEDS OF THE POOREST SQUATTER COMMUNITIES.

3. PERU NOW FACES A PERIOD OF INTENSE BUDGET AUSTERITY MADE NECESSARY BY THE NEED TO CONTROL DOMESTIC INFLATION AND EQUILIBRATE THE BALANCE OF PAYMENTS. WE ARE CONVINCED THAT THIS FINANCIAL CRISIS HAS AND WILL INCREASINGLY ERODE THE SOCIAL PROGRESS WHICH PERU HAS MADE IN RECENT YEARS UNLESS NEW, NON-INFLATIONARY SOURCES OF BUDGET FINANCING ARE FORTHCOMING. THIS IS ESPECIALLY TRUE FOR THE AGRICULTURE SECTOR AND FOR THE RURAL POOR, WHO COMPRISE AID'S PRINCIPAL TARGET GROUP.

4. IN ORDER TO SUSTAIN THE MOMENTUM OF THE AGRARIAN REFORM, IT IS ESSENTIAL THAT THE INSTITUTIONAL BASE REQUIRED FOR INCREASING THE PRODUCTIVITY OF LAND AND LABOR BE EXPANDED AND IMPROVED. THE REFORM ITSELF RESULTED IN THE CREATION OF A VARIETY OF SUPPORTIVE GOVERNMENTAL AND COOPERATIVES INSTITUTIONS, BUT THE EFFECTIVENESS OF THESE INSTITUTIONS HAS BEEN AND WILL CONTINUE TO BE HAMPERED BY THE LACK OF ADEQUATE LIMITED OFFICIAL USE

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PAGE 03 LIMA 00158 01 OF 02 091556Z

FUNDING FOR ADAPTIVE RESEARCH, APPROPRIATE TECHNOLOGY, EXTENSION AND FARM-TO MARKET TRANSPORTATION. ANY SIGNIFICANT EFFORT TO EFFECT SUCH IMPROVEMENT WILL BE CONSIDERABLY BEYOND THE FINANCIAL MEANS OF THE PERUVIAN GOVERNMENT IN THE NEXT FEW YEARS. AN ADDITIONAL AREA OF REALY CONCERN WHICH GOES BEYOND THE AGRARIAN REFORM IS THE URGENT REQUIREMENT TO OPEN UP NEW AREAS FOR CULTIVATION IN THE HIGH JUNGLE TO ACCOMMODATE INCREASED INFLOWS OF POOR FARMERS FROM THE SIERRA, WHERE THE BASIC MAN-LAND RATIO HAS BECOME UNTENABLE.

5. LOCAL CURRENCIES GENERATED UNDER A TITLE III PROGRAM WOULD PROVIDE PRECISELY THESE MISSING ELEMENTS. BECAUSE THE FUNDS WOULD BE ADDITIONAL TO EXISTING GOVERNMENT OUTLAYS IN AGRICULTURE, THEY WOULD BE USED TO AUGMENT KEY ASPECTS OF BOTH THE OPERATING AND INVESTMENT BUDGETS OF THE MINISTRY OF FOOD AND AGRICULTURE AND POSSIBLY HEALTH AND EDUCATION. FOR EXAMPLE, TITLE III COULD PERMIT A SIGNIFICANT INCREASE IN THE NUMBER OF EXTENSIONISTS IN THE SIERRA AND HIGH JUNGLE; IT COULD SUPPORT INCREASED CONSTRUCTION OF

ACCESS ROADS AND LAND CLEARING IN THE HIGH JUNGLE;
IT COULD DOUBLE THE BUDGET FOR APPLIED RESEARCY ON
HIGHLAND FOOD CROPS; IT COULD PROVIDE GREATLY
INCREASED MOBILITY FOR ADAPTIVE RESEARCH AND EXTENSION
CADRE THROUGH ADDITONAL FUNDING OF VEHICLE OPERATION
AND MAINTENANCE. IT COULD BE USED TO PROVIDE HEALTH.

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PAGE 01 LIMA 00158 02 OF 02 091550Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 LIMA 0158

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JOINT AID/STATE/USDA MESSAGE

SERVICES, AGRICULTURAL EDUCATION, AND NUTRITION
PROGRAMS IN AREAS WHERE THE LACK THEREOF IS PERCEIVED
AS A SIGNIFICANT CONTRAINT ON PRODUCTIVITY. IN
EACH OF THESE (AND POSSIBLE OTHER) AREAS, AID WOULD
WORK CLOSELY WITH THE GOVERNMENT TO ASSURE THAT
TITLE III WAS SUPPORTING A FEASIBLE AND REALISTIC
DEVELOPMENT STRATEGY. ANALYSIS BEING UNDERTAKEN BY
THE MISSION IN CONNECTION WITH THE DAP REVISION
(DUE MARCH 1978) WOULD PROVIDE AN OVERALL ANALYTICAL
FRAMEWORK FOR THE TITLE III ACTIVITY; AND ADDITONAL
ANALYTICAL WORK WOULD BE UNDERTAKEN, AS NEEDED , TO
SUPPORT DISCRETE ELEMENTS OF THE PROGRAM.

6. IN TERMS OF ASSISTANCE TO PERU AT THIS TIME,
TITLE III OFFERS ADVANTAGES OVER AN EXPANSION OF
TITLE I. IT WOULD PERMIT A CLOSER TARGETTING OF
RESOURCES ON THE MOST CRITIAL DEVELOPMENT
CONSTRAINTS OF THE RURAL SECTOR PERMITTING THE
FIANCING OF ADDITIONAL ESSENTIAL ACTIVITIES ON
THE OPERATING EXPENSE SIDE OF THE GOP BUDGET.
FINANCING OF THIS KIND (E.G., EXTENSION SERVICES IN

KEY REGIONS; CROP SPECIFIC APPLIED RESEARCH) CAN BE
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PAGE 02 LIMA 00158 02 OF 02 091550Z

UNDERTAKEN EFFICIENTLY ONLY THROUGH THE "PROJECTIZED"
MODE OF ASSISTANCE AFFORDED BY TITLE III, WHICH
GIVES THE HOST GOVERNMENT REASONABLE ASSURANCE OF
SUSTAINING EXPANDED ACTIVITIES OVER THE MEDIUM TERM
WHILE BUDGET FLOWS RECOVER TO LEVELS SUFFICIENT TO
COVER CONTINUING COSTS. ANOTHER OBVIOUS ADVANTAGE
IS THE LOAN FORGIVENESS ELEMENT OF TITLE III, WHICH
OFFERS A MEANINGFUL U.S. RESPONSE TO PERU'S
BALANCE OF PAYMENT DIFFICULTIES. TITLE III WILL
ALSO PROVIDE THE GOP WITH AN OPPORTUNITY TO MORE
EFFICIENTLY COORDINATE NUTRITION REQUIREMENTS AND
FOOD IMPORT POLICIES.

7. WE URGE THAT PERU BE GIVEN A 5 YEAR, \$100 MILLION
TITLE III PROGRAM (WHEAT AND SOYBEAN OIL) BEGINNING
IN FY 1979. WE BELIEVE THAT SUCH A PROGRAM SHOULD
BE BASED ON A STRONG CONCENTRATION OF FINANCING
DURING THE FIRST TWO YEARS WHICH PROMISE TO BE MOST
SEVERE. A 5 YEAR PROGRAM IS CONSISTENT WITH OUR
MEDIUM TERM PLANNING FOR AID LOANS AND GRANTS.
PERU'S CASE FOR EXTERNAL CONCESSIONAL ASSISTANCE
WILL REMAIN COMPELLING FAR BEYOND THIS PERIOD.
A PRECISE PROPOSED SCHEDULE OF U.S. RESOURCE
INPUTS DURING THE FIVE YEAR PERIOD WILL BE BASED ON
A MORE THOROUGH ANALYSIS OF THE BUDGET, ABSORPTIVE
CAPACITIES BY TYPES OF PROGRAMS, ETC., WHICH WILL
BE UNDERTAKEN DURING THE DAP EXERCISE. WE EXPECT
THAT OUR FINAL TITLE III PRESENTATION COULD BE
SUBMITTED WITH THE DAP AT THE END OF MARCH.

8. BEFORE PURSUING TITLE III WITH THE GOP WE NEED
TO CLARIFY QUESTION OF ELIGIBILITY. AS INDICATED
REF (B), RECENT DEVALUATION OF THE PERUVIAN SOL
BROUGHT DOWN VERY RAPIDLY THE PER CAPITA GNP OF
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PAGE 03 LIMA 00158 02 OF 02 091550Z

PERU. MISSION ESTIMATES THAT PER CAPITA OF \$550
WAS REACHED LAST MONTH WHEN SOL DROPPED TO 116 PER
US \$1.00. SOL IS PRESENTLY AT 130 TO THE DOLLAR.
THUS, THOUGHT PERU IS NOT A RECIPIENT OF IDA
ASSISTANCE, WE WOULD HOPE THAT PERU COULD BE
CONSIDERED A POTENTIAL TITLE III RECIPIENT ON
GROUNDS OF HAVING PER CAPITA INCOME ROUGHLY WITHIN
THE RANGE INDICATED IN THE LEGISLATION, HAVING A

DEMONSTRABLE NEED FOR MAJOR DEVELOPMENT ASSISTANCE
AT THIS TIME AND HAVING A DEVELOPMENT EMPHASIS
WHICH IS CONSISTENT WITH THE PRESENT DIRECTIONS
OF US FOREIGN ASSISTANCE PROGRAMS.

9. THE OUTLOOK OVER THE NEXT FEW YEARS IN PERU IS
FOR CONTINUED ECONOMIC DIFFICULTIES AND DEVELOPMENTAL
NEEDS, PARTICULARLY IN THE AGRICULTURAL SECTOR. A
\$100 MILLION PL 480 TITLE III PROGRAM, SUPPLEMENTING
AID LOANS AND RANTS, CCC CREDITSN ETC. WOULD HAVE
A SIGNIFICANT IMPACT ON PERUVIAN ECONOMIC DEVELOPMENT
AND WOULD DEMONSTRATE HIGHLY VISIBLE USG SUPPORT FOR
THE GOP IN ITS EFFORTS TO BRING ITS ECONOMY BACK
INTO EQUILIBRIUM, MAINTAIN ITS CREDITWORTHINESS,
AND CARRY THROUGH ON ITS STATED POLITICAL GOAL OF
A RETURN TO CIVILIAN GOVERNMENT BY 1980. THE
ECONOMIC AND POLITICAL OBJECTIVES--INCLUDING
CONTINUED RESPECT FOR BASIC HUMAN RIGHTS--ARE
CLOSELY INTERRELATED AT THIS TIME INPERU, AND A
SIGNIFICANT, POSITIVE ACTION BY THE USG IN
ESTABLISHING A PL 480 TITLE III PROGRAM WOULD
HELP US TO PURSUE OUR POLITICAL AND HUMAN
RIGHTS, AS WELL AS DEVELOPMENTAL, OBJECTIVES HERE.
SHLAUDEMAM

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